

From: Jo Ann Broderick [jbroderick@firstcomcu.org]
Sent: Wednesday, March 04, 2009 9:30 AM
To: _Regulatory Comments
Cc: christine.mehalik@pcua.coop
Subject: Jo Ann Broderick, First Commonwealth FCU-Comments on ANPR for part 704

ANPR - First Commonwealth FCU's comments - 3/4/09

1. The Role of Corporates in the Credit Union System

a. Payment system

Comment - Separate charters for offering services would not be wise because earnings potential from just that service is likely insufficient to compete with the large banks that offer the service. Credit unions apply due diligence in selecting vendors. If they can get a lower priced payment system service from a bank than a corporate, they will have to do that. If natural person credit unions can't get good pricing, they are at a disadvantage for pricing services for their members. Banks would then have a distinct advantage over both natural person and corporate credit unions. It would be better to isolate and measure the different levels of risk that payment systems and investment services pose to the corporate, and set distinct capital level requirements in consideration of the risk inherent in a specific corporate's activities.

b. Liquidity and liquidity management

Comment - This should definitely be considered a core service. Natural person credit unions need to be confident that funds are available in any circumstance. Other services cannot be severely limited because that would have a negative impact on the corporates' earnings, which would make it difficult for corporates to offer competitive rates on liquid funds. Natural person credit unions would use the services of a bank to earn higher rates.

Cash Flow and Liquidity management should be part of any Financial Institution's Asset Liability policy. There should be board approved risk limits that are met. Each corporate may have unique liquidity needs so attempting to set one limit may not be practical. Duration limits should be added because bonds with longer durations carry more risk and price volatility.

c. Field of membership issues

Comment - Corporate credit unions should keep national charters. This does promote some level of competition, but not any more than the competition each corporate faces from banks who are vying for the business of natural person credit unions. NCUA has taken the position that competition between natural person credit unions is good for consumers, citing that as a reason for allowing FOM overlaps. It stands to reason that competition between corporates is good for natural person credit unions and, by extension, consumers.

d. Expanded investment authority

No comment

e. Structured; two-tiered system

Comment - The services currently provided by US Central should be analyzed to see how practical it would be for corporates to offer them without the need for US Central. Eliminating

one layer and its associated overhead costs may make the overall cost structure of corporates more efficient.

Volume should be a consideration when evaluating specific services. For example, safekeeping of securities, are there economies of scale that allows US Central to offer this service at a cost much lower than a corporate could? It may be possible for the corporates to rely on each other to fill the void left should US Central be phased out.

2. Corporate Capital

a. Core capital

Comment - Because corporate credit unions engage in the types of activities that banks offer to natural person credit unions, they should have a capital ratio requirement, measurement systems, and sources that match what is used by banks. Corporate services should not be limited only to natural person credit unions who contribute to core capital. Banks do not have such a requirement for offering service to credit unions, so corporates would be at a competitive disadvantage.

b. Membership capital

Comment - If risks in corporates are similar to risks in banks, the same tier two capital requirements should apply at a very minimum. There's seems to be no evidence that corporates assume less risk than banks.

c. Risk-based capital and contributed capital requirements

Comment - Capital requirements should be risk-based to ensure adequate protection to the credit union industry. There should be no requirement for natural person credit unions to maintain contributed capital. It could be encouraged through product pricing. Any contributed capital should be based on the asset size of the natural person credit union.

3. Permissible Investments

Comment - Any corporates who invest in instruments not authorized for natural person credit unions should be required to have higher capital levels to offset the additional risk. I don't think investment authorities should be that limited across the board, because it could have a negative impact on corporates' ability to offer natural person credit unions competitive rates.

4. Credit Risk Management

Comment - Stress testing, concentration and other limits should be part of any sound Asset Liability policy. It may not be practical for NCUA to set one set of limits that would be a fit for all corporates. We are in favor of continuing to allow corporates to set their own limits on concentration by insurer, industry type, sector types, geographic, etc., however the NCUA exam process should be rigorous in its review of the reasonability of the policy.

5. Asset Liability Management

Comment - Yes, Net interest income modeling and stress testing should be part of their Asset Liability policy. This would show the risk inherent in possible changes in market rates, and it would provide a historical record to show whether risk is increasing or decreasing.

6. Corporate Governance

Comment - A minimum level of experience is a must. Executive level experience in a credit union is advisable, however, someone who, for example, serves as an executive at a \$50 million asset natural person credit union may not have the knowledge required to govern a multi billion asset corporate. There should be one or two outside directors on every board. Only outside directors should be paid. Credit union executives receive their full pay from their own credit union when on corporate business. The paid outside director(s) could ensure that other directors do not make decisions based on how it will elevate their personal status, allow them to travel to exotic locations on corporate business, or otherwise improve their situation. I recently observed that when two corporates merged, the full boards of both were determined to stay on the board. Having such a large board just to accommodate egos can detract from the entity in the form of increased expenses. It's also a sign that not all decisions are made solely for the benefit of the members.

Jo Ann Broderick
President/CEO
First Commonwealth FCU
(610) 997-6366
jbroderick@firstcomcu.org

FIRST COMMONWEALTH FEDERAL CREDIT UNION CONFIDENTIALITY NOTICE:

This message (and any attachment) is confidential and is intended for the sole use of the individual or entity to which it is addressed.

If you are not the intended recipient, you must not review, retransmit, convert to hard-copy, copy, use or disseminate this email or any of its attachments.

If you received this email in error, please notify the sender immediately and delete it. This notice is automatically appended to all Internet e-mail.